



LODI CITY COUNCIL
Carnegie Forum
305 West Pine Street, Lodi

"SHIRTSLEEVE" SESSION

Date: May 9, 2006

Time: 7:00 a.m.

For information regarding this Agenda please contact:

Susan J. Blackston
City Clerk
Telephone: (209) 333-6702

NOTE: All staff reports or other written documentation relating to each item of business referred to on the agenda are on file in the Office of the City Clerk and are available for public inspection. If requested, the agenda shall be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. To make a request for disability-related modification or accommodation contact the City Clerk's Office as soon as possible and at least 24 hours prior to the meeting date.

Informal Informational Meeting

A. Roll call by City Clerk

B. Topic(s)

B-1 Alternatives to Social Security for part-time, seasonal, and temporary employees (CM)

C. Comments by public on non-agenda items

D. Adjournment

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

Susan J. Blackston
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Alternatives to Social Security for part-time, seasonal, and temporary employees

MEETING DATE: May 9, 2006

PREPARED BY: Jim Krueger, Deputy City Manager

RECOMMENDED ACTION: Council receive the attached report, which outlines options to Social Security benefits for Part-time employees.

BACKGROUND INFORMATION: At the last Shirtsleeve meeting (May 2, 2006), staff presented a discussion of pension issues. On May 9, 2006 staff will present an option related to part-time employees that will result in potential immediate savings to the City.

Following is a brief discussion (a more detailed presentation is attached) of this option, which affords the City of Lodi an opportunity to save approximately \$70,000 per year and also impacts part-time employees favorably. In short, it is a win for the City and for part-time employees too. Here is the short version of the plan to convert part-time employees from Social Security to a defined contribution plan. The Social Security System is a defined benefit plan and the option that staff is proposing for part-time employees is a defined contribution plan. Recall from the earlier discussion on May 2, 2006, that a defined benefit plan prescribes an amount to be paid out to pensioners at the time of retirement and requires that employees and employers pay an amount that will allow for the prescribed (defined) payment (benefit) to the employee at the time of retirement. A defined contribution plan, on the other hand, defines the contribution amounts to be paid by the employer and employee and does not guarantee or define the benefit to be paid out at the time of retirement.

In fiscal year 2005-06, the City of Lodi employed more than 330 part-time employees at a cost of more than \$1.1 million. By law, all employers must offer pension coverage or enroll employees in Social Security. Lodi does not cover part-time employees in the California Public Employees Retirement System (PERS) or any other pension system and therefore must enroll them in Social Security. Currently the City pays 6.2 % (employer share) for this group of employees at a cost of approximately \$70,000 (which must also be matched by the employee) to Social Security. There is an alternative to the Social Security System, which affords the City an opportunity to save the employer's contribution to the Social Security System and a higher net pay check to part-time employees as well. Aside from the apparent lack of long term financial viability of the Social Security system, the City and the employee would have savings if an alternate defined contribution would be used in its place. Due to the tax benefits to employees of a pretax pension contribution (as opposed to Social Security, which is a post tax payment) the employee's net pay would increase and the City would save the \$70,000 employer contribution.

APPROVED: _____
Blair King, City Manager

Staff desires to pursue this cost savings tool and will bring the necessary documents required to implement the defined contribution system and for hiring a trustee to administer the plan at a regular City Council meeting in the near future.

Part-time employees are not covered under any bargaining agreement and, as such, there is no requirement to meet and confer with these employees in order to implement this change.

FISCAL IMPACT: Possible savings of approximately \$70, 000 per year.

FUNDING AVAILABLE: Not applicable

Jim Krueger, Deputy City Manager

Attachment



Alternative Pension System For Part-Time Employees

Presented May 9, 2006

Fiduciary Issues

- District may appoint the Trustee as investment manager and “Discretionary Trustee”, and thereby pass fiduciary responsibility for investments to the Trustee
 - OR
- District may elect to select their own investments and establish a “Directed Trustee” arrangement and retain fiduciary responsibility for investments
- Trustee must act pursuant to Government Code Section 53216.6
 - Exclusive benefit of employees
 - Prudent person standard

The background of the slide features a faint, blue-tinted image of classical architectural columns, likely from a government building, which are partially visible behind the text area.

Alternate Retirement System

- Alternative to Social Security for Part-Time, Seasonal, and Temporary Employees (PST)
- Meets OBRA '90 Requirements
- Complies with ICR 3121(b)(7)(F) requirements
- 457 defined contribution plan
- Reduces cost to Agency due to lower total contribution rate

The background of the slide features a faint, blue-tinted image of classical architectural columns, likely from a government building, which are partially visible behind the text area.

Alternate Retirement System

- Agency's only financial obligation is to provide the pre-determined contribution amount
- Agencies benefit from fixed cost
- Contribution may be split in any manner between the Agency and Employee
- Avoid future financial liability
- Employee's benefit is the accumulated account balance at distribution

The background of the slide features a light blue gradient with a faint, semi-transparent image of classical architectural columns on the left side. The entire content is framed by a thin brown border.

Alternate Retirement System

SCENARIO # 1

CONTRIBUTION SPLIT

Employer = 1.30%

Employer = 6.20%

Benefits to the Agency

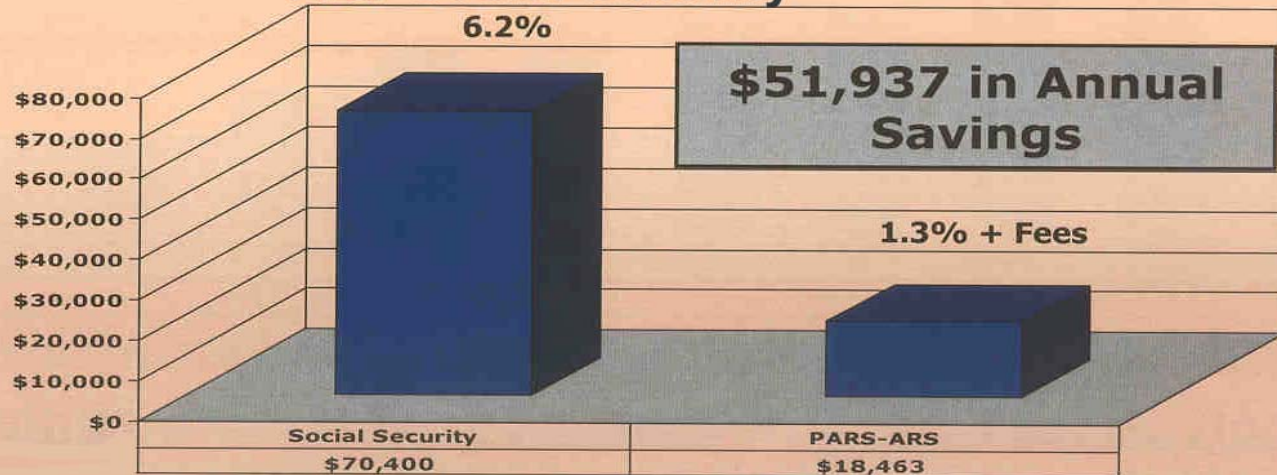
Assumptions

334 PST employees
\$1,135,484 Annual Payroll
Expenses paid by the Agency

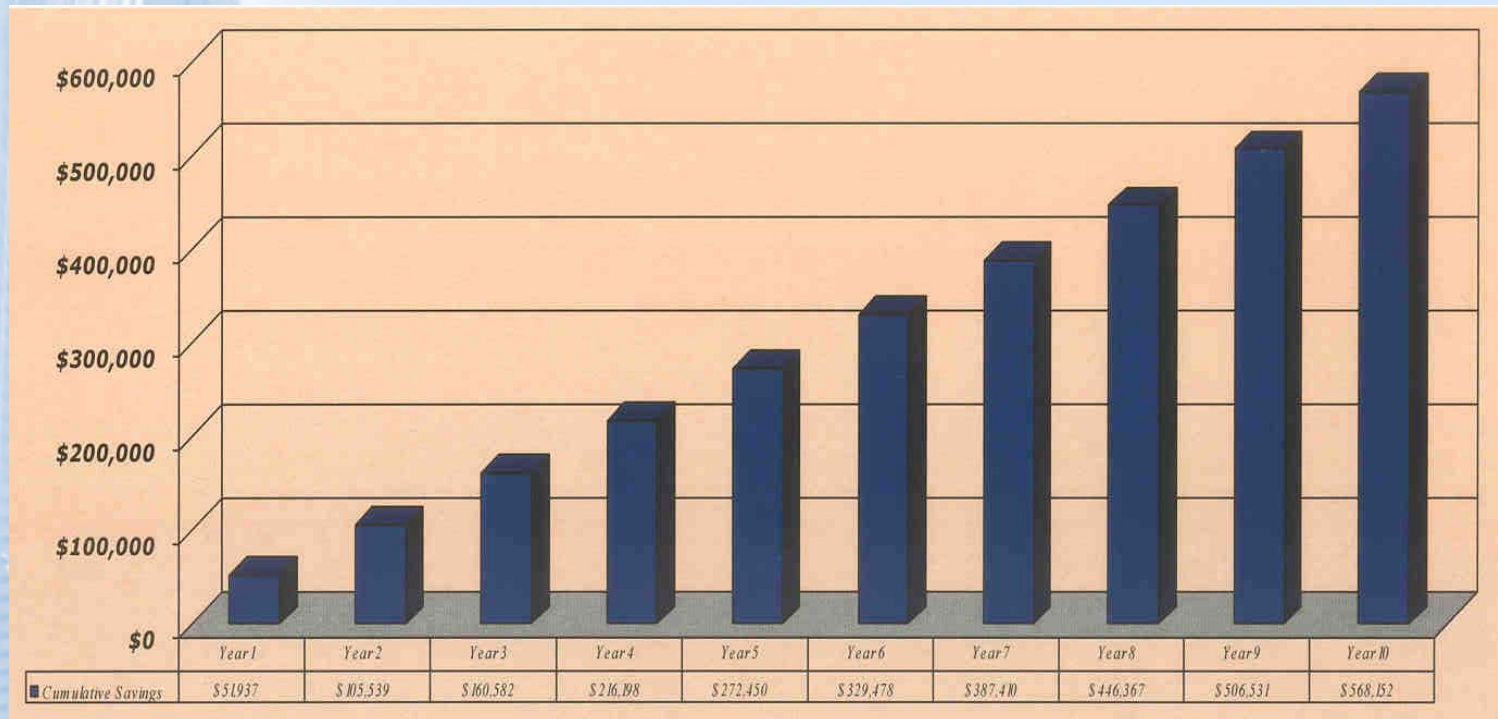
Contribution Split

EE Contribution: 6.20%
ER Contribution: 1.30%

First Years ARS Savings to Employer over Social Security



Cumulative Savings Over Social Security



1 Year Savings

\$51,937

5 Year Savings

\$272,450

10 Year Savings

\$568,152

Benefits to the Employees

Assumptions:

EE Contributions: 6.20%

ER Contribution: 1.30%

Comparison of ARS and Social Security

	<u>ARS</u>	<u>SOCIAL SECURITY</u>
GROSS ANNUAL INCOME	\$3,137	\$3,137
LESS ARS @ 6.20%	(\$194)	
TAXABLE INCOME	\$2,943	\$3,137
LESS TAXES @ 20%	(\$589)	(\$627)
LESS SOCIAL SECURITY @ 6.20%	<u> </u>	<u>(\$194)</u>
NET INCOME	\$2,354	\$2,316
ADDITIONAL TAKE-HOME PAY	\$38	

The background of the slide features a light blue gradient with a faint, semi-transparent image of classical columns on the left side. The columns are white with detailed capitals and are set against a darker blue background. The entire slide is framed by a thin brown border.


Alternate Retirement System

SCENARIO #2

CONTRIBUTION SPLIT

Employer = 0.00%

Employee = 7.50%

The background of the slide features a light blue gradient with a faint, semi-transparent image of classical architectural columns on the left side. The columns are white with detailed capitals and are set against a darker blue background.

Benefits to the Agency

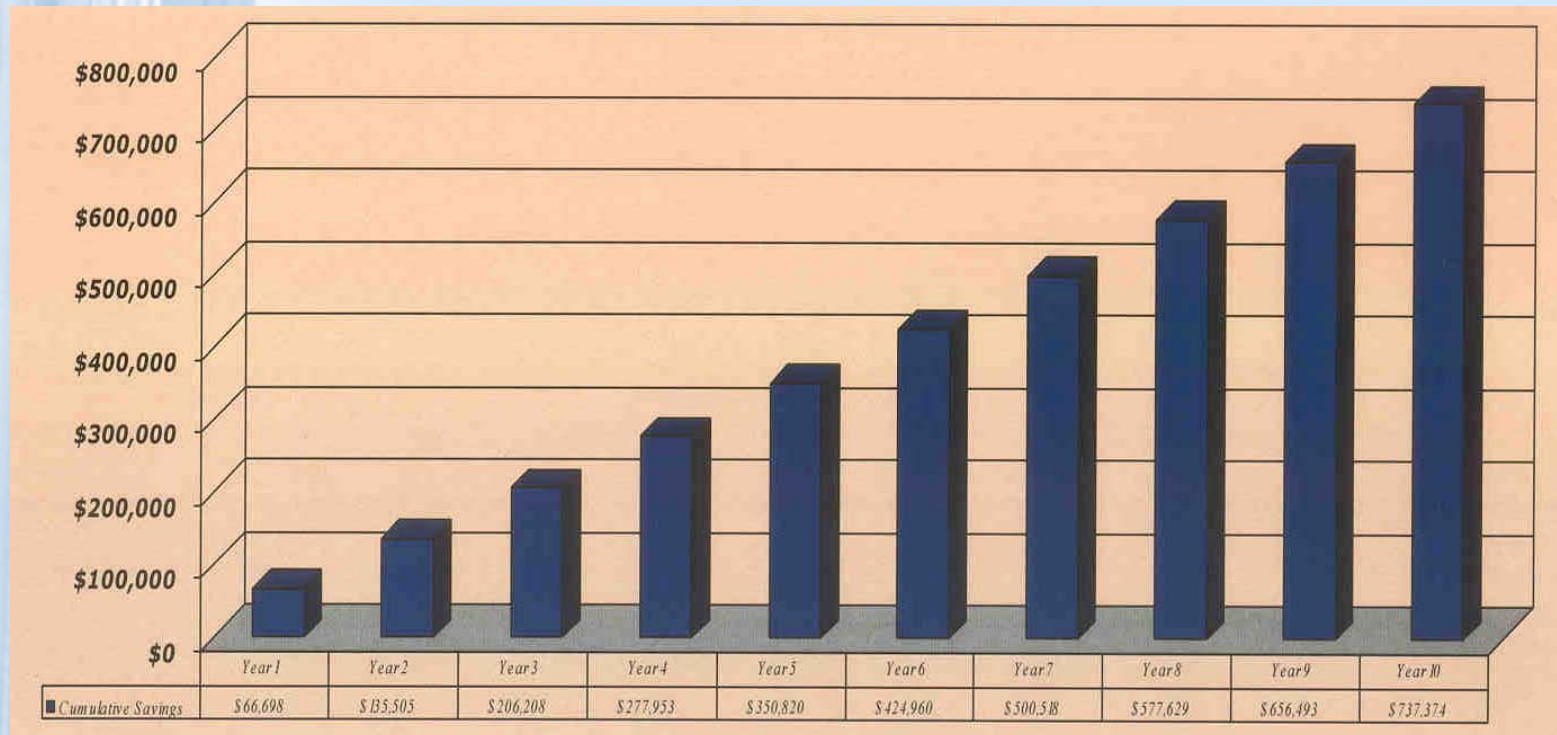
Assumptions

334 PST employees
\$1,135,484 Annual
Payroll
Expenses paid by the
Agency

Contribution Split

EE Contribution:
7.50%
ER Contribution:
0.00%

Cumulative Savings Over Social Security



1 year Savings

\$66,698

5 Year Savings

\$350,820

10 Year Savings

\$737,374

Benefits to the Employee

Assumptions:

EE Contribution: 7.50%

ER Contribution: 0.00%

Comparison of ARS and Social Security

	<u>ARS</u>	<u>SOCIAL SECURITY</u>
GROSS ANNUAL INCOME	\$3,400	\$3,400
LESS ARS @ 6.20%	(\$255)	
TAXABLE INCOME	\$3,145	\$3,400
LESS TAXES @ 20%	(\$629)	(\$680)
LESS SOCIAL SECURITY @ 6.20%	_____	(\$211)
NET INCOME	\$2,516	\$2,509
ADDITIONAL TAKE-HOME PAY	\$7	

Benefits to the Employee

	ARS	Social Security
Vesting	100% immediate vesting (ownership)	40 Credits
Contributions	Deducted pre-tax	Deducted after-tax
Benefit Limit	Contributions increase account balance without limit	Once limit is met, additional contributions do not result in higher benefits

Benefits to the Employee

- Immediate eligibility for lump-sum distribution at:
 - Retirement
 - Termination
 - Permanent Disability
 - Death
- If an employee goes from part-time, they are eligible for a lump sum distribution if:
 - There are 2 years of zero contributions into the plan and
 - The account balance is less than \$5,000 and
 - There has been non previous in-service distribution
- Distribution flexibility
 - Lump-sum cash pay out
 - IRA or other qualified plan rollovers
 - Purchase of PERS/37 ACT service credit (if eligible)

The slide features a decorative background with a light blue gradient and a faint image of classical columns on the left side. The entire content is enclosed in a thin brown border.

Benefits to the Employee

- Expedient monthly distributions
- Toll-free customer service line (24-hour voicemail)
- Plan communication materials
- Annual statements

The background of the slide features a light blue gradient with a faint, semi-transparent image of classical architectural columns on the left side. The columns are white with detailed capitals and fluted shafts. The entire slide is framed by a thin brown border.

Plan Implementation

- “Signature-Ready” documents
 - Resolution
 - Trust agreement
 - Adoption agreement to the Trust
 - Plan document
 - Administrative services agreement

Plan Implementation

- Initial plan set-up
 - Prepares sample Board/Council agenda report
 - Conducts meetings with payroll, personnel and other Agency staff members
 - Holds group orientation meeting(s) with plan participants
 - Provides plan communication materials for participants
 - Assists in conducting employee elections
 - Provides access to experienced ARS support staff

Plan Administration

- ARS provides ongoing “turn-key” administration
 - Agency/Participant inquiries
 - Account valuations, statements and reports
 - All required state and federal governmental reporting
 - Expedient monthly distribution direction
 - Orientation meetings(s) with plan participants and Agency administrators as necessary
 - Periodic “Administrator’s Update” Newsletter

The slide features a decorative background with a light blue gradient and a faint image of classical columns on the left side. The title 'Plan Administration' is centered at the top in a brown serif font.

Plan Administration

- Agency's role
 - Send contributions to the Trustee
 - Send payroll contribution report ARS
 - Notify Trust Administrator of employees eligible for a distribution

The background of the slide features a light blue gradient with a faint, semi-transparent image of classical architectural columns on the left side. The columns are white with detailed capitals and are set against a darker blue background. The entire slide is framed by a thin brown border.

Implementation Steps

1. Governing body passes Resolution adopting the plan
2. Plan documents are executed
3. Meeting held with payroll, personnel and other staff members involved with the plan
4. Orientation meeting conducted for new plan participants
5. Payroll system adjusted, personnel procedures set up
6. First payroll contribution and data submitted